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January 25, 2010

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Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

Re: Proposed Amendments to Regulation Z  
on Closed-End Credit, Docket No. R-1366

Dear Ms. Johnson:

I am writing on behalf of Aon Integramark, a debt cancellation and debt suspension service provider for the lending industry. This letter is in response to the Proposed Rule revising the Regulation Z provisions regarding closed-end credit. I understand that the comment period has closed, but I am asking that this letter be considered and I am respectfully requesting the members of the Board of Governors of the Federal Reserve System to consider adopting the suggestion set forth herein.

The Board's proposal revises the rules for disclosure of closed-end credit secured by real property or a consumer's dwelling with the goal of improving the effectiveness of the disclosures creditors provide to consumers in connection with and throughout the life of a mortgage. Aon supports the goal of effective disclosures, but concludes that some of the proposed amendments in regard to debt cancellation and debt suspension are not improvements.

## I. Issues

The Board proposes a total finance charge concept for closed-end credit secured by a consumer's dwelling that incorporates all fees paid by consumers or imposed by the creditor as included in the finance charge. Under the proposal, the finance charge exclusion for debt cancellation and debt suspension in Section 226.4 (a), (c), (d) and (e) would no longer apply to closed-end mortgage loans. Debt cancellation and debt suspension are an optional purchase and provide benefits without reference to other coverage. Adding optional debt cancellation and debt suspension charges to the finance charge calculation artificially inflates the APR and confuses comparison of the true cost of credit.

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The Board proposes new credit insurance and debt cancellation and suspension agreement disclosures. The proposed credit insurance and debt cancellation and suspension agreement disclosures contain inaccurate product descriptions, inappropriate statements and are potentially misleading.

## II. Current Debt Cancellation Products and Practices

Debt cancellation and debt suspension involve the charging of a fee by the lender pursuant to an agreement by the lender not to collect the loan in the case of debt cancellation or to suspend collection of the loan in the case of debt suspension upon death, disability or other agreed upon event of the debtor.

The purchase of debt cancellation or debt suspension by the consumer is optional. Debt cancellation or debt suspension can be cancelled at any time and any unearned charge is refunded. Industry practice is to allow a 30 day "free look" period that provides a full refund upon cancellation.

Debt cancellation and debt suspension provide a benefit without reference to any other coverage the consumer may have. Debt cancellation and debt suspension do not subrogate insurance benefits, are not forced-placed and are intended to match the loan balance at every point in the loan history. The charge is based on the outstanding balance of the loan, so the consumer is paying for exactly what is needed to cover the loan obligation.

The stated purpose of these significant amendments to Regulation Z is to provide consumers with the information needed to understand the transactional features and, in particular, appreciate the potential risks associated with variations available with a mortgage loan. Debt cancellation and debt suspension do not change the substantive terms of the mortgage loan. Debt cancellation and debt suspension follow the outstanding balance of the loan however that amount is calculated.

While mortgages have evolved over the years to fill different consumer needs, purchasing debt cancellation or debt suspension remains a simple transaction requiring little information to make an informed choice. Debt cancellation and debt suspension complement but do not complicate the loan transaction. Charges are based on outstanding loan balance or monthly payment amounts. The amount owed determines the charge, not the type of loan, not the interest rate and not other loan factors.

To add debt cancellation and debt suspension charges to the interest calculation would artificially inflate the interest rate, confuse the consumer and prevent the consumer from comparing the true cost of available credit.

### III. Finance Charge

The Board's proposal to add new Section 226.4(g) to include debt cancellation and debt suspension charges in the finance charge for all closed-end transactions secured by real estate or a dwelling would have a devastating effect on these consumer transactions.

Under the Truth in Lending Act (TILA at 15 U.S.C. §1605(b)) charges for credit life, accident or health insurance written in connection with any consumer credit transaction are specifically excluded from the finance charge if (i) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and (ii) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof. Debt cancellation and debt suspension are indistinguishable from credit insurance from the consumer's perspective. Thus, the express exclusion from the finance charge in TILA for credit insurance if certain conditions are satisfied should apply equally to debt cancellation and debt suspension when these same conditions are satisfied. This is illustrated by the current definition of finance charge in Section 226.4 that treats credit insurance and debt cancellation and debt suspension the same. The inclusion of voluntarily debt cancellation and debt suspension charges in the finance charge does not advance TILA's purpose of enabling consumers to compare more readily the various credit terms available to them.

In regard to the proposed rule, the commentary states, "The Board believes that Congress did not anticipate how such unbundling would undermine the purposes of TILA, when it enacted the exceptions." The example cited is document preparation fees as an income source, excluded from the finance charge. It's a big leap from there to optional credit insurance and debt cancellation and debt suspension products.

Actual cited authority for including debt cancellation and debt suspension charges in the finance charge for closed-end transactions is under TILA at 15 U.S.C. §§1604(a) and (f). Those sections state that "The FRB shall prescribe regulations to carry out the purposes of this subchapter." The purpose of TILA is contained in 15 U.S.C § 1601(a), which states, "It is the purpose of this subchapter to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit, and to protect the consumer against inaccurate and unfair credit billing and credit card practices." The inclusion of voluntarily purchased debt cancellation and debt suspension charges in the finance charge does not advance this purpose, because debt cancellation and debt suspension are not part of the cost of credit and the extension of credit does not depend on the purchase of debt cancellation or debt suspension. Inclusion of debt cancellation and debt suspension charges in the finance charge only serves to act as a de facto prohibition against the products.

Debt cancellation or debt suspension is generally paid on a monthly basis. Aon suggests the proposed rule specifically exclude voluntary debt cancellation or debt suspension calculated and paid on a monthly basis from the proposed requirement to include debt cancellation or debt suspension charges in the finance charge for all closed-end transactions secured by real property or a dwelling. Aon suggests that the commentary on pages 43243 and 43272 regarding 226.4(d) state: "premiums or fees paid on a monthly basis are not considered financed." Additionally, the draft rule at 226.4 (g) should state: "This paragraph (g) shall not apply to voluntary credit insurance premiums, or debt cancellation or suspension products, calculated and paid on a monthly basis."

#### IV. Disclosures

The Board is proposing to add new Section 226.38, requiring new credit insurance and debt cancellation and debt suspension disclosures to be provided on all closed-end credit transactions secured by real property or a dwelling. The Board is also proposing to add new Appendices G and H to Part 226, which are a set of new model disclosures applicable to all open-end or closed-end (not secured by real property) credit transactions. The new disclosures contained in the proposed models are identical to the new disclosures contained in proposed Section 226.38, so any subsequent change in a disclosure needs to be carefully compared to proposed model language so it remains identical.

The proposed disclosures contained in Section 226.38 (h) (3) require the creditor to provide the consumer with a disclosure for all closed-end credit transactions secured by real property or a dwelling stating that if the consumer already has insurance, then the debt cancellation or debt suspension coverage may not provide the consumer with additional benefits. This disclosure is factually inaccurate and is therefore inappropriate and misleading to the consumer. Debt cancellation or debt suspension, by the very nature of the product, only provides coverage for a specific loan, therefore it will always provide the consumer with additional benefits and coverage unavailable before the loan was taken out. One of the accepted methods consumers use for determining how much life insurance coverage to obtain is to calculate their total amount of indebtedness and secure coverage for at least that amount. If subsequent additional indebtedness is incurred, then the debtor is necessarily short of insurance coverage by the amount of the new indebtedness. This does not occur with debt cancellation and debt suspension. Debt cancellation cancels the indebtedness and debt suspension suspends the debt for the time agreed.

Model language appears in Appendix G-16(C) for open-end credit and Appendix H-17(C) for closed-end credit. The model clauses provide consumers information on the optional nature and costs of credit insurance and debt cancellation and debt suspension products. The disclosure language is based on consumer testing conducted by the Board to determine whether consumers understood the optional nature and costs of credit insurance or debt cancellation or suspension coverage.

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Aon suggests replacing the sentence in H-17(C) following the sentence on age and/or employment requirements and reading “However, you may not qualify to receive any benefits because of other eligibility restrictions” with new language such as “However, the lender must confirm this information and you may not qualify to receive any benefits because of these and other eligibility restrictions.” The change is legally more correct and less confusing. The most straight forward approach to this disclosure would be the statement “Exclusions and limitations apply to this product. Read the debt cancellation or debt suspension materials for the terms and conditions.”

In model disclosures H-17(C), Aon finds the language “STOP. You do not have to buy this product to get this loan” harsh. Suggested alternative language is “This product is voluntary and you may cancel it at any time.” This is a more affirmative approach to the purchase transaction that informs but does not berate the consumer. As discussed above in regard to Section 226.38, H-17(C) incorrectly states “If you have insurance already, this policy may not provide you with any additional benefits.” Debt cancellation and debt suspension provide benefits regardless of other insurance the borrower may have in force. Debt cancellation and debt suspension are never subrogated to other coverage.

The statement in H-17(C) reading “Other types of insurance can give you similar benefits and are often less expensive” is inadvertently deceptive. There is no product on the market other than credit insurance and debt cancellation and debt suspension tied to the outstanding balance or decreasing on a scheduled payment basis that covers any remaining outstanding debt. Ordinary life or term life insurance is only available in much larger amounts than is necessary to cover the average outstanding debt. The statement thus supposes very much more insurance than is needed, which is not a similar benefit, and is only less expensive when divided by the actual loan amount and then compared. Aon recommends deletion of this phrase.

Aon objects to the proposed disclosure that concludes proposed H-17(C) regarding required debt cancellation or debt suspension. For coverage that is not optional, a separate disclosure is appropriate to address that very different product. Model clause H-17(D) has a heading reading “credit insurance, debt cancellation or debt suspension” but the text deals solely with credit insurance. Aon suggests that the heading be revised to refer only to credit insurance.

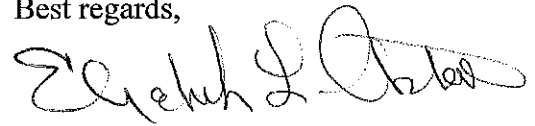
Aon Integramark and I appreciate the opportunity to comment on the proposal and the Board’s consideration of this comment letter as part of the Board’s revisions to Regulation Z. Please do not hesitate to contact me if you have any questions or would like additional information.

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Please do not hesitate to call me if you have any questions.

Best regards,

A handwritten signature in black ink, appearing to read "Elizabeth L. Anstaett", with a stylized, flowing script.

Elizabeth L. Anstaett

cc: Tom Ostenson, Esq.  
Darrell L. Dreher, Esq.